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DEPT PLEASE PASS TO USTR FOR SHAUN DONNELLY, BETSY HAFNER
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GENEVA FOR AMBASSADOR ALLGEIER
TREASURY FOR CLAY LOWERY, NANCY LEE AND JEFF BAKER
USDOC FOR U/S LAVIN

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TAGS: ECON PREL EAGR EAID AJ

SUBJECT: AZERBAIJAN: PRESIDENT HIGHLIGHTS ECONOMIC
SUCCESSES IN RUN UP TO PRESIDENTIAL ELECTIONS IN 2008

Classified By: AMBASSADOR ANNE E. DERSE, PER REASONS 1.4 (B,D)

¶1. (C) SUMMARY: With Presidential elections only two years away, President Aliyev already is highlighting his economic progress during his presidency. In a series of public addresses during a recent trip to Azerbaijan's regions, President Aliyev highlighted the country's economic development during his administration and announced new infrastructure projects. Aliyev stressed his government's short-term and long-term economic strategic planning, noting that a key government objective is to ensure widespread development, including development of the non-oil sector. He said the GOAJ has developed "the outlines" of a new long-term development strategy. As in previous economic speeches, President Aliyev attributed the growth in employment and the creation of 500,000 new jobs to his economic policy. Aliyev called for the further development of the agricultural sector in order to become "self sufficient." Over the past six months, the GOAJ also has directed spending on new infrastructure projects, such as new "international" airports in Ganja and Lankaran, financing for the Kars-Akhalkalai-Baku railroad and a new Baku ring road. Many of the current economic decisions and new project announcements are directed towards the rapid development and modernization of the country. END SUMMARY.

PRESIDENT TOUTS ECONOMIC SUCCESSES

¶2. (SBU) In recent public remarks during regional trips within Azerbaijan, President Aliyev announced that Azerbaijan's economic growth, projected to be 32 percent in 2006, is "unrivaled" and that over the past three years "more than 500,000 new jobs have been created." (As part of his 2003 presidential campaign, Aliyev pledged to create 600,000 jobs.) As in 2005, Azerbaijan is expected to have the fastest growing economy in the world. Thanks to its energy sector, gross domestic product in 2006 will again likely grow at more than 30 percent. President Aliyev stated that the government's key objective is to ensure widespread development of the country, including the non-oil sector. Aliyev stressed that since his election in 2003 more than 700 schools have been built. He said that two regional health centers have been established, and promised that regional

health centers will be opened in every region of the country.

13. (SBU) President Aliyev also commented on Azerbaijan's economic strategy policy, adding that it is "being prepared for the short-term and long-term." Among the short-term projects, President Aliyev highlighted the construction of electric power stations, credits and assistance to entrepreneurs, and energy pipeline projects to bring natural gas to rural areas. Aliyev stated that the GOAJ "has paid great attention to the development of entrepreneurialism and had spent more than USD 200 million to achieve a greater level of entrepreneurialism." Regarding the government's long-term economic policy strategy, Aliyev stated that the GOAJ "is working on a policy and the outlines are already beginning to emerge."

14. (SBU) President Aliyev stated that Azerbaijan would develop its agricultural sector in order to become "self sufficient," adding that Azerbaijan currently imports a large part of its food stuffs. Aliyev claimed that rural agricultural production has "grown recently," an assertion supported by the Minister of Agriculture Abbasov who told the Ambassador October 11 that the agriculture sector grew 4.5 percent and that after the harvest period its growth would reach between 7 and 8 percent. Many international economic observers note, however, that the agricultural sector in the first nine months of 2006 has experienced zero growth, and may have actually contracted. Anecdotal evidence indicates that many of Azerbaijan's rural residents are relocating to Baku where paying jobs are more abundant, especially in the fast growing construction sector.

INCREASED ECONOMIC ACTIVITY

15. (SBU) Over the past six months, the GOAJ has ramped up its capital expenditure spending and announcements of new infrastructure projects. While in Azerbaijan's second largest city Ganja on October 31, President Aliyev announced plans to construct a new airport, noting that the airport would be "the impetus to development of the whole region." A new "international" airport is to be under construction in Lankaran, the local governor told the Ambassador (septel) Aliyev also cited the many road infrastructure projects currently under way in the regions, including in the Ganja region. On November 1, Azerbaijan announced that it would finance half of the costs of the 105 km Kars-Akhalkalai-Baku railroad, a project valued at approximately USD 425 million. The GOAJ also announced plans to increase the minimum wage in January and July 2007 at a cost of approximately USD 300 million. On November 1, the Ministry of Transportation announced the USD 51 million contract awarded to a Turkish construction company for the construction of a new "Baku Circular Route 1."

POLITICALLY DRIVEN ECONOMIC POLICY

16. (C) With the Presidential elections still two years away, President Aliyev is highlighting his economic progress during his presidency. The GOAJ has often cited the increase in job growth without supporting documentation or proof, and unemployment remains a real problem for a population that is struggling against higher prices. The unofficial unemployment rate is approximately 35 to 45 percent and inflation in 2006 is predicted to be between 15 and 20 percent. Many of the current economic decisions and new project announcements are directed towards the rapid development and modernization of the country. Azerbaijan's economy remains heavily dominated by the energy sector. GOAJ efforts to diversify the economy and develop the non-oil sector are essential, but difficult. The GOAJ, as it seeks to diversify and develop the economy, it faces a major policy challenge in balancing the acknowledged need for rapid social and economic development, reinforced by electoral imperatives, with the need to maintain macroeconomic stability.

